INPUT

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December 21, 1992

Mr. Denis Hawkins
IBM Corporation
Mail Stop 3C2206 MD330
1133 Westchester Avenue
White Plains, NY 10604

Dear Denis:

Attached is the proposal for INPUT's analyses of the professional services sector and vendor IS revenues. It has been revised to incorporate the changes made per your meeting with us on the 15th.

The schedule (Section VI) allows for preliminary forecast data the beginning of May to support your internal May publication date.

If you have any questions, please give Joanne or me a call.

Sincerely,

Tom /jp

Thomas O'Flaherty
Vice President

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INPUT

PROPOSAL

A MARKET FORECAST AND ANALYSIS OF PROFESSIONAL SERVICES SYSTEMS OPERATIONS SECTORS

For Market Analysis and Measurements
International Business Machines

White Plains, New York

December 21, 1992

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Attachment 1

Services and Deliverables
A Market Forecast and Analysis of the Professional Services Sector

I. OBJECTIVES

IBM is a long-time subscriber to INPUT's Market Analysis Program, which sizes, analyzes, and forecasts the U.S. information services market. The Market Analysis Program analyzes the market in terms of delivery mode (e.g., professional services, software processing, etc.) as well as by market (e.g., vertical markets). The information and analysis is delivered to clients annually in over 20 separate reports.

IBM has found that this method of information delivery is useful; however, IBM needs to bring together into one place all INPUT's information related to the professional services market. INPUT will regroup and re-analyze previously assembled data and analysis to focus specifically on professional services. The reasons for doing so include:

- To produce a finer granularity in market sizing and forecasting, especially for:
  - Professional service delivery submodes by vertical market
  - Leading information service vendors and associated market share by vertical market
- To identify issues that are driving specific segments of professional services (by submode and/or vertical industries)
- To apply IBM vertical industry segmentation/definitions, where they differ from INPUT's
- To apply IBM's economic assumptions

This kind of re-analysis provides IBM a single-point information source that unites market sizing, forecasting, competitive analysis, and sector trend analyses. IBM has found this deepening of the analysis very useful in the past; IBM has requested that INPUT perform six similar re-analyses of the professional services market since 1987.

Additionally, INPUT will provide IBM with two other segments of information on the IS industry.

- INPUT will provide IBM with their estimate of the information services revenues by industry for 60 vendors.
- INPUT will also provide IBM with a breakdown of component parts of the Systems Operations market: hardware, software, maintenance, and personnel.

II. THE PROFESSIONAL SERVICES MARKET

A. Scope

Professional services will be segmented as follows:

- The first cuts will be to segment professional services (including the professional services component of systems integration) and systems operation (platform, applications, network, and desktop) into not more than 26 industry groups as described in the IBM-supplied document *"Industry Classification Codes"*.

- Within each industry, the professional services data will be allocated into professional services "submodes":

  - Consulting
  - Software Development
  - Education and Training
  - Systems Operations

  Note: The professional service component of systems integration will be allocated among the four submodes above, as well as being separately summarized.

The following information will be supplied by professional services and systems operations for each industry:

- Market size

- Leading vendors and their market share. Note: Generally, INPUT will show specific market share information for five vendors in each industry group or at least half the applicable market (whichever is larger). Exceptions may occur for small markets and fragmented markets, or where information is not available and/or cannot feasibly be estimated; INPUT will note where such cases occur.

- Other vendors active in a market (listed alphabetically)

- "Up and coming" vendors: i.e., those that may not yet be among the market leaders but have a unique or compelling approach and/or have targeted a particular market, along with a description of their approaches.

INPUT will also provide information on key applications that are provided to each industry. Similarly, INPUT will supply pertinent examples of contracts awarded in particular industries/submodes, based on publicly available information.

A key part in each industry analysis will be a discussion of professional services-related issues. These may include (but are not limited to):

- Trends, technology impacts, etc.
- Reasons for a vertical market being significantly above or below average.
- Reasons for vendor success, vendor strategies, etc.
- In many cases, contract information will be integrated into this section as support for point being made, to illustrate trends, etc.
- Generally speaking, systemic industry trends will not be noted. Exceptions are those that directly affect professional services or systems operations - processing services (e.g., the upheavals in retail department stores).

Where systems operations issues are different, these will be distinguished and discussed.

In cases where there have been changes to market sizing/forecasts from prior years, this will be noted and the reasons given. (Generally, if the change is significant in terms of size or direction, this will be discussed in the main text; small, technical changes will be explained in a "Reconciliation" section).

The basic source for INPUT's work will be the INPUT 1992 Market Analysis Program reports, data bases, and underlying analyses. INPUT will perform analysis and secondary research as required (for example, to spread and identify professional services revenues of particular vendors) and will also draw on non-proprietary issues, etc., surfaced in related client studies. INPUT will apply estimates, as required, based on its industry experience.

Note: The scope of this project is essentially the same as the 1992 project. Changes include:

- The expansion of the Systems Operations delivery modes into four sub-modes: platform, applications, network, and desktop, as defined in the 1992 Market Analysis Programs Definitions section.
- The number of IBM defined industries will not exceed the 26 industries defined in the 1992 report.

B. Methodology

The report will be a combination of quantitative analysis, factual information, and industry knowledge.

1. Quantitative Analysis

- INPUT will create 15 worksheets, one for each major industry sector as defined by INPUT. Each worksheet will contain the following information:
  - A list of the two-digit Standard Industrial Classification (SIC) codes that comprise the industry sector
  - For each INPUT-defined sector, a crosswalk definition of the IBM-defined industry sector
  - An algorithm will be developed for moving the INPUT-defined sector data to the appropriate IBM-defined sector.
  - Where sectors do not match, an allocation factor will be derived from SIC data from the U.S. Department of Commerce and INPUT's judgment of professional services market potential.
  - INPUT will review its logic and rationale with IBM at a progress meeting.
- A computer program will be applied to INPUT's data base to:
  - Delete the INPUT inflation factors from the original INPUT professional services market forecast
  - Execute the algorithms to segment the INPUT data and recast it in the IBM format
  - Apply the IBM-defined inflation factors
  - Create the new forecast data in the format defined by IBM for each of up to 26 industry sectors
  - Create the new forecast data for each of the five professional services delivery modes as well as system operations
- INPUT will review all data for reasonableness and make required changes in step 1.

2. Factual Information

INPUT will assemble the following from its data bases and vendor files:

- Vendors in a particular industry sector, with sizing as reported in INPUT's data bases
- "Up and coming" vendors

3. Industry Knowledge

INPUT will add its knowledge of the information services industry, professional services, and individual industry sectors throughout the project. Tasks where this knowledge will be applied include:

- Allocation between INPUT-defined and IBM-defined industry sectors
- Review of market size crosswalks
- Allocation of particular vendor revenues across industries
- Allocation of particular vendor revenue across delivery modes.
- Vendor strategies and positioning.
- Identification of applications by industry and mode
- Identification of, and rational for, "up and coming" vendors
- Classification of contracts between "professional services", "systems integration", and "systems operations".
- Issue and trend identification

III. TOTAL INFORMATION SERVICES MARKET

A. Scope

During the course of this project, INPUT will assemble information on a list of Information Services vendors in the United States, across all delivery modes from publicly available sources. Information provided on these vendors will be total 1992 information services revenue and 1992 revenue by IBM industry. Delivery mode and submode information is not included under the terms of this project. Cross-industry revenue will be distributed on a best efforts basis to the proper industry based on our understanding of the industries' use of "cross-industry" products and services.

Professional Services Vendors

AGS/NYNEX
American Management Systems
Analysts International Corp.
Andersen Consulting
Automatic Data Processing
Boeing
Computer Data Systems Inc.
Computer Horizons Corp.
Computer Language Research
Computer Sciences
Computer Task Group Inc.
Cycare Systems Inc.
Electronic Data Systems
Fiserv Inc.
HBO Company
Intermetrics Inc.
Keane Inc.
Lockheed Corp.
Logicon Inc.
Martin Marietta Corp.
National Data Corp.
National Education Corp.
Policy Management Systems
Shared Medical Systems Corp.
SHL Systemhouse Inc.
Sungard Data Systems Inc.
Systematics

Software and Services Vendors

Adobe Systems Inc.
Aldus Corp
American Software
Ask Computer Systems Inc.
Autodesk Inc.
BMC Software Inc.
Boole & Babbage Inc.
Borland International
Cadence Design Systems Inc.
Cognos Inc.
Computer Associates International
Comshare Inc.
D & B Software
Goal Systems International Inc.
Informix Corp.
Interleaf Inc.
Intersolv
Knowledgeware Inc.
Legent Corp.
Lotus Development Corp.
Mentor Graphics Corp.
Microsoft Corp.
Novell Inc.
On-Line Software International
Oracle Systems Corp.
Pansophic Systems Inc.
Software Publishing Corp.
Sterling Software Inc.
Sybase Inc.
Symantec Corp.
System Software Assoc. Inc.
Systems Center Inc.
Valid Logic Systems Inc.

B. Methodology

INPUT will consult its internal data bases of information on information services vendors and determine the Information Services revenues of the vendors on the list supplied by IBM. Revenues for these vendors are in the data base segmented by INPUT's industry definitions. The crosswalk used in section II, Professional Services Market, will again be used to convert the INPUT defined industries to IBM defined industries.

IV. SYSTEMS OPERATIONS SEGMENTATION

A. Scope

During the course of this project, INPUT will segment the Systems Operations market into the component parts:

- Hardware
  - New
  - Previously acquired
- Software
  - New/Current year license
  - Previously acquired or paid-up license
- Maintenance
- Personnel/Overhead

The segmentation of the Systems Operations market will be done for the market as a whole and not by IBM defined industries.

B. Methodology

INPUT will consult its internal data bases of information on Systems Operations projects and information services vendors and determine the split of the components of the projects. This information will be provided for the Systems Operations market as a whole and will not be provided by IBM defined industries.

V. DELIVERABLES

IBM will receive the following deliverables in the course of the study:

- A presentation of findings
- Hard copies of the presentation version of the findings
- Hard copies of the report in a format agreed to by INPUT and IBM
  - Two in loose-leaf binders
  - One unbound
- A 5 1/4 " and a 3 1/2 " diskette in Lotus 1-2-3 format, containing the data used to produce the tables (for internal IBM use only)

The report will be organized as follows:

INTRODUCTION
- Objectives
- Scope
- Methodology (General and for this study)
- Definitions
- Reconciliation

PROFESSIONAL SERVICES MARKET OVERVIEW
- Industry Forecasts
- Delivery Mode Forecasts
- Key Applications
- Major Vendors
- Discussion of Systems Operations

INDUSTRY FORECASTS (up to 26 sections, one for each industry)
- Forecast by Delivery Mode and Submode
- Vendors
  - Leading vendors and market share
  - Other vendors
  - "Up and coming" vendors
- Issues and Trends
  - Applications
  - Contracts

CONCLUSIONS
- Key Opportunities
- Major Competitors

APPENDIX
- Full Market Forecast Tables
- Information Service Revenues by Industry
- Systems Operations Segmentation

INPUT will also be available for telephone consultation on the report's contents for eight weeks after the delivery of the report. (Telephone consultation will be with a single contact person within IBM.)

VI. SCHEDULE

The following schedule shows the tasks to be performed, by week; this assumes authorization by January 29, 1993 Market sizing and forecast data would be available in week 8. INPUT anticipates that an initial presentation of materials will be available 12 weeks after INPUT begins work. Progress reviews are scheduled in weeks 4, 8, 15 and 16.

Week	Task
0	Project authorization by IBM
1	Project begins; IBM supplies economic assumptions, a list of IBM defined industry categories, and a list of the 60 vendors chosen for full IS revenues by industry.
1-3	- INPUT establishes industry crosswalk rationale. - INPUT assembles contract examples - INPUT makes first cut of leading professional services firm revenue by industry.
4	Progress review meeting; INPUT reviews methodology with IBM
5	INPUT adjusts and applies crosswalk methodology to data base.
6-9	INPUT performs the following: - Leading vendor data "unpacked" by mode - Secondary and "up and coming" vendors identified and sized - Application information assembled and reviewed - Issues and trends identified by industry
10	Sample industry segment report prepared by INPUT and reviewed with IBM for content and format.
12	INPUT delivers initial vertical industry sizes and forecasts.
13-16	INPUT prepares remaining industry segment reports
17-19	INPUT prepares a chart showing the IS vendors (up to 60 - IBM's choice) in the U.S. with revenues segmented by IBM industry.
20	INPUT makes the presentation to IBM for IBM's comment, and delivers a copy of the draft report for IBM's review.
21	IBM and INPUT review report.

23	INPUT delivers a revised presentation to IBM.
25	INPUT delivers loose-leaf and unbound copies of the final report to IBM.
26	INPUT is available for consultation by telephone on facts/issues raised in the report.
10/8/93	INPUT delivers an update version of the computer diskettes showing revised forecasts for 1993-1998.

VII. FEES

INPUT's professional fee for this engagement is $85,000, plus out-of-pocket expenses (e.g., report production, telephone, travel, etc.) One half of this amount is due and payable upon authorization, with the remainder, plus any expenses, due at the completion of the assignment.

The term of this proposal will remain valid for 30 days unless extended in writing.

AUTHORIZATION

To authorize the project as specified, please sign and return one copy of this proposal, along with the initial fee. Upon acceptance by INPUT, a countersigned copy of the proposal will be returned to IBM.

AUTHORIZED BY:	ACCEPTED BY:
IBM Corporation	**INPUT**
Name	Name
Title	Title
Date	Date

PROJECT WORK STATEMENT

TITLE Analysis of Professional Services

CLIENT IBM

CONTRACT: ATTACHED ✓ TO FOLLOW ____ LETTER ____ VERBAL ____

PROJECT LEADER TUF PROJECT CODE IN ~~###~~ D21

DATE STARTED 1/11/93 PLANNED COMPLETION DATE 10/8/93

LEVEL OF EFFORT(Professional Man Days) 53

TOTAL CONTRACT VALUE: $ or ~~£~~ 85,000

REVENUE DISTRIBUTION (% or $) INPUT US/100 INPUT LTD ____

REIMBURSABLE EXPENSES: NO ____

YES ✓

EXP. BUDGET 12,000 est TO COVER: TRAV: ____ TELE: ____ RPT. PREP.: ____ OTHER: ____

BILLING SCHEDULE DESCRIPTION 1 up front

PROJECT DESCRIPTION Reanalyze INPUT PFS & SS into IBM categories. Provide industry analysis & examples of contracts

INDICATE TYPE OF WORK: REPORT ✓ PRESENTATION ____

THANK YOU PACKAGE: YES ____ NO ✓

ACCOUNTING USE ONLY: ENTERED ON CURRENT PROJECT LIST ____

DISTRIBUTI

CONTRACT FILE

LIBRARY FILE

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